ISSUE DATE: March 18, 1996

DOCKET NO. E-017/M-95-1044

ORDER APPROVING PROPOSAL FOR REAL-TIME PRICING RIDER, WITH MODIFICATIONS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner
Don Storm	Commissioner

In the Matter of a Petition by Otter Tail Power Company for Approval of a New Real-Time Pricing Rider

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PROCEDURAL HISTORY

On October 6, 1995, Otter Tail Power Company (Otter Tail or the Company) filed a petition seeking approval of a Real-Time Pricing (RTP) rider.

On December 11, 1995, the Department of Public Service (the Department) filed comments recommending approval of Otter Tail's proposed RTP rider, with modifications.

On January 5, 1996, Otter Tail filed reply comments.

The matter came before the Commission for consideration on February 22, 1996.

FINDINGS AND CONCLUSIONS

I. OTTER TAIL'S PROPOSED RTP RIDER

Otter Tail proposed its RTP rider as an experimental program initially limited to 20 customers. In order to be eligible to participate, customers must be from Otter Tail's General Service, Large General Service, or Large General Service Time-of-Use customer class and must have maintained a demand level of 200 kW or more in the past.

Otter Tail's RTP proposal is a two-part rate. Customers are obligated to purchase a set amount of energy, the Customer Baseline Load (CBL), at a standard rate for a specific period of time. Any deviations in usage above or below the set amount are priced at Otter Tail's hourly RTP energy price (the spot price) and added to or subtracted from the standard rate portion of the load. Under the RTP theory, subscribing customers can choose when to increase, maintain, or decrease production, all based on their own unique value of electricity. The goal is for customers to use this pricing mechanism to promote economic efficiencies.

The CBL, which is unique to each customer, is calculated by using a complete calendar year of hourly energy levels, as well as 12 monthly on-and-off peak billing demands for Time-of-Use customers, or 12 monthly non-differentiated billing demands for General Service or Large General Service customers.

Otter Tail will make adjustments to the CBL to reflect known or reasonably anticipated changes in usage or demand that are not related to the introduction of RTP.

Otter Tail's hourly RTP energy price is comprised of three components--marginal operating costs, marginal outage costs, and a profit margin. The marginal operating costs are based on Otter Tail's projected hourly system incremental operating costs. The marginal outage costs establish high prices during hours when congestion or reliability of the system would be eroded by increased consumption and improved by decreased consumption. Outage costs provide incentives for customers to shift or shed load during hours when this relief is most valuable to all customers. A profit margin, which varies in response to changes in the underlying level of marginal costs, is added to the operating and outage cost components during certain hours.

The RTP customer's bill is calculated by applying the applicable current rate schedule, along with applicable riders, to both the customer's CBL billing demand and CBL level of energy usage for each month of the RTP service year. Next, the hourly RTP energy price is multiplied by the difference between the customer's actual consumption and its CBL. In any hour in which the customer's actual load exceeds its CBL, the customer will be charged for the incremental load at the hourly RTP prices; in any hour in which the customer's actual load is below the CBL, the customer will receive a bill credit based on the hourly RTP price. Finally, an administrative charge of $180 per month is added to the customer's bill. The administrative charge covers costs such as the labor needed to compute and to send prices each day and the development of individual CBLs.

II. COMMENTS OF THE PARTIES

A. The Department

Although the Department commended Otter Tail for exploring RTP options, the Department felt that the Otter Tail proposal was too complex and failed to send exact price signals.

The Department offered an alternative plan under which customers would have a higher fixed access charge and all energy would be priced and billed based on the real-time energy rate. The CBL would be eliminated.

Under the Department's plan, each participating customer would be assigned a fixed monthly access charge in addition to the $180 administrative charge. The increased administrative charge would ensure that all costs of the RTP program are recovered. The Department would eliminate the profit margin in Otter Tail's energy rate. The RTP energy rate under the Department's plan would be calculated exclusively on Otter Tail's incremental hourly energy and the marginal outage costs.
The Department recommended that the Commission approve Otter Tail's RTP rider with the provision that the Company must offer the Department's alternative along with its own program to all potential participants. The Department recommended that the Commission

require Otter Tail to report on the two options after three years of implementation.

B. Otter Tail

Otter Tail opposed the Department's recommendation to require two RTP rider options. Otter Tail stated that the Department's option is not a good choice for either Otter Tail or its customers.

Otter Tail argued that it should not be required to cap its profits by eliminating the profit margin (which recovers some fixed costs) from the energy rate. Under the Department's plan, neither Otter Tail's shareholders nor its other customers would benefit from a customer who elects to increase electrical load.

According to Otter Tail, its RTP customers would have no hedge against rising prices under the Department's plan, because the CBL would be eliminated. Few, if any, customers have the option of shutting down production to avoid high prices. Otter Tail argued that the requirement of offering the Department's undesirable option would block customer participation and harm the Company's credibility with its customers.

Otter Tail also argued that offering two different RTP options would be confusing to its customers and would increase the cost of providing the rider.

III. COMMISSION ACTION

The Commission commends both the Company and the Department for offering thoughtful, well-developed RTP plans. In an era of increasing competition and flexibility, these plans are promising vehicles by which customers can make their own price and timing choices to achieve greater economic efficiency.

Both options have good points. Otter Tail's CBL component offers customers some protection from price increases and an incentive to try the RTP rider. The Department's RTP option is straightforward, relatively simple, and theoretically pure.

It is particularly difficult for the Commission to choose one of the RTP options over the other because this is a new pricing program without a track record. The two plans are difficult to compare in the abstract because they are quite different in their choice of components and overall billing approach.

More significantly, the Commission believes that it is good policy in this case to require both models to be offered. This is a pilot program, an important time to keep available options open to customers. The offering of two different but related models will allow the Commission to analyze a range of RTP components when it evaluates the pilot program.
Although customers may be initially confused by their options, any confusion should be offset by the increased customer choice. Because Otter Tail's customers will be free to choose either RTP option, or to choose not to participate in the program at all, neither the customers nor Otter Tail should be harmed by the offering of two rather than one program.

To ensure that the pilot program develops along lines which are favorable for both Otter Tail and its customers, the Commission will require a report on the pilot program in one year after its initiation. At that time, all parties can comment on the actual, in-the-field implementation of the rider options. The Commission can evaluate and reassess the program if necessary at that time.

ORDER

1. The Commission approves Otter Tail's proposed RTP rider with the modification that Otter Tail shall offer the Department's model along with the Company's plan.

2. After one year of offering the RTP rider options, Otter Tail shall file a report with the Commission analyzing the following factors, as well as any other information the Company wishes to include: 1) each of the two options; 2) the administrative costs associated with each option; 3) the impact of offering two options on Otter Tail's profits; and 4) whether Otter Tail should continue to offer the CBL option.

3. Within 60 days of the date of this Order, Otter Tail shall submit a filing reflecting the modifications to its proposal discussed in this Order.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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